

TOWNSHIP OF CRYSTAL FALLS
IRON COUNTY, MICHIGAN
AUDITED FINANCIAL STATEMENTS

Fiscal Year Ended March 31, 2007

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Crystal Falls Township	County Iron
Fiscal Year End March 31, 2007	Opinion Date September 11, 2007	Date Audit Report Submitted to State September 14, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.


We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC		Telephone Number (231) 946-8930	
Street Address 731 S. Garfield Avenue		City Traverse City	State MI
		Zip 49686	
Authorizing CPA Signature 	Printed Name Barry E. Gaudette, CPA		License Number 11050

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INDEPENDENT AUDITORS' REPORT

Members of the Township Board
Township of Crystal Falls
Crystal Falls, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Crystal Falls, Michigan, as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Crystal Falls, Michigan's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Crystal Falls, Michigan, as of March 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Township of Crystal Falls
Independent Auditors' Report
Page Two

The Management's Discussion and Analysis and the required supplemental information identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township's basic financial statements. The accompanying additional information schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying additional information schedules as listed in the table of contents have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bary E. Tanski, CPA, PC

September 11, 2007

TOWNSHIP OF CRYSTAL FALLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2007

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

The Township as a Whole

The Township's combined net assets increased 8.6% from a year ago - increasing from \$2.255 million to \$2.450 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced an increase of approximately \$186,000 during the year (14.73% increase). This is attributed to a gravel crushing project and the Township's share of costs for road repairs incurred during the prior year but not repeated in the current year. The business-type activities experienced an \$9,000 increase in net assets, primarily as a result of capital spending associated with the water system project. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current Assets	\$ 1,110	\$ 896	\$ 67	\$ 227	\$ 1,177	\$ 1,283
Noncurrent Assets	<u>388</u>	<u>399</u>	<u>1,188</u>	<u>978</u>	<u>1,576</u>	<u>1,179</u>
Total Assets	\$ 1,498	\$ 1,295	\$ 1,255	\$ 1,205	\$ 2,753	\$ 2,462
Long-Term Debt Outstanding	\$ 2	\$ 2	\$ 135	\$ 145	\$ 137	\$ 147
Other Liabilities	<u>47</u>	<u>30</u>	<u>119</u>	<u>68</u>	<u>166</u>	<u>44</u>
Total Liabilities	\$ <u>49</u>	\$ <u>32</u>	\$ <u>254</u>	\$ <u>213</u>	\$ <u>303</u>	\$ <u>191</u>
Net Assets						
Invested in Capital Assets—Net of Debt	\$ 388	\$ 399	\$ 1,035	\$ 814	\$ 1,423	\$ 1,213
Restricted	362	323	0	9	362	36
Unrestricted	<u>699</u>	<u>541</u>	<u>(34)</u>	<u>169</u>	<u>665</u>	<u>1,006</u>
Total Net Assets	\$ 1,449	\$ 1,263	\$ 1,001	\$ 992	\$ 2,450	\$ 2,255

TOWNSHIP OF CRYSTAL FALLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2007

Unrestricted net assets—the part of net assets that can be used to finance day to day operations, increased by \$158,000 for the governmental activities. This increase can be attributed primarily to the lack of capital spending during the year. The current level of unrestricted net assets for our governmental activities stands at \$699,000.

Unrestricted net assets—the portion of assets that can be expended in future periods to pay necessary obligations decreased by \$203,000. This can be attributed to the ongoing expenditures to upgrade the Water Utility System. The retained earnings portion of unrestricted net assets in the Sewer Utility System became a deficit during the year. A deficit elimination plan will be filed to demonstrate how the Township will eliminate the deficit.

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Program Revenues						
Charges for Services	\$ 34	\$ 35	\$ 247	\$ 245	\$ 280	\$ 280
Operating Grants and Contributions	0	2	0	0	2	2
Capital Grants and Contributions	0	0	0	0	0	0
General Revenues						
Property Taxes	\$ 511	\$ 511	\$ 0	\$ 0	\$ 511	\$ 511
State-Shared Revenues	149	153	0	0	149	153
Licenses and permits	2	2	0	0	2	2
Unrestricted Investment Earnings	16	11	16	1	32	12
Refunds and reimbursements	4	4	0	0	4	4
Sale of land	0	0	0	0	0	0
Other	0	0	0	0	0	0
Transfers	<u>0</u>	<u>(8)</u>	<u>0</u>	<u>8</u>	<u>0</u>	<u>0</u>
Total Revenues	\$ 716	\$ 710	\$ 263	\$ 254	\$ 979	\$ 964
Program Expenses						
Legislative	\$ 9	\$ 6	\$ 0	\$ 0	\$ 9	\$ 6
General Government	240	183	0	0	240	183
Public Safety	131	122	0	0	131	122
Public Works	114	322	254	265	368	587
Recreation & Culture	3	5	0	0	3	5
Community Betterment	2	4	0	0	2	4
Employee Benefits	0	43	0	0	0	43
Insurance	<u>31</u>	<u>31</u>	<u>0</u>	<u>0</u>	<u>31</u>	<u>31</u>
Total Expenses	\$ <u>530</u>	\$ <u>716</u>	\$ <u>254</u>	\$ <u>265</u>	\$ <u>784</u>	\$ <u>981</u>
Change in Net Assets	\$ 186	\$ 165	\$ 9	\$ (4)	\$ 195	\$ 161

TOWNSHIP OF CRYSTAL FALLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2007

The Township's net assets remain at a comfortable level. This can be attributed to conservative yet necessary planning and spending on past capital equipment and projects and implementation of cost savings measures.

Governmental Activities

The Township's total governmental revenues increased by approximately \$ 6,000 during the year. This was derived primarily from increased earnings on investments and rental income.

Expenses decreased by approximately \$186,000 during the year. This is attributed to little capital spending during the year and a delay in the betterment of roads through the Iron County Road Commission. In addition, the Township had expended more than \$145,000 crushing gravel in the prior year which is not an ongoing expenditure.

Business-Type Activities

The Township's business-type activities consist of the Water and Sewer Funds. The Township provides water and sewer services to its residents. Sewer services are purchased from the City of Crystal Falls and the Township provides water from its own system. The revenues in water fund increased due to a rate increase and having Iron County Medical Care Facility project in place for the entire year. Sewer revenues decreased due to a drop in utilization. Expenses in both funds stayed relatively constant.

The Township will be closely examining its Sewer operations this year to establish a plan to eliminate the existing deficit.

The Township's Funds

Analysis of the Township's major funds begins on page 12, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as a federal grant/loan. The Township's major funds for 2006-2007 include the General Fund, Fire Protection Fund, Township Improvement Fund and each of the business type funds.

The General Fund pays for most of the Township's governmental services. The most significant are general maintenance of Township property and buildings, parks and recreation, maintaining the Township's equipment, and general administration. These services are primarily funded from property taxes assessed to the residents of the Township and revenues shared with the State of Michigan.

TOWNSHIP OF CRYSTAL FALLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2007

The Township's Water and Sewer Funds are funded primarily through charges to customers for the services received.

General Fund Budgetary Highlights

Over the course of the year, the Township Board amended the budget to take into account events during the year. Various accounts are amended as necessary, unanticipated expenditures are incurred by the Township in the course of its operations.

Capital Asset and Debt Administration

At the end of the 2006-2007 fiscal year, the Township had slightly more than \$2.525 million invested in a broad range of capital assets, including land and buildings, office equipment and a water system. In addition, the Township has invested significantly in roads within the Township which are not included in the total as the roads are owned by the Iron County Road Commission. These roads are maintained by the Road Commission with the costs recorded on their financial records.

The Township continued to timely service its existing debt in the Water Fund. Principal payments made during the year on the debt was \$5,000.

Economic Factors and Next Year's Budgets and Rates

The Township's budget for 2007-2008 calls for no change in property tax rates in the general fund but will decrease the Fire Protection Fund millage by .25 mills. This decrease can be accomplished because of the contract with the City of Crystal Falls to properly fund the Crystal Falls Fire Authority and the cost controls that are in place. Because of the impact of Proposal A, the new Michigan Business Tax and decreasing State Shared Revenues, the Township needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than the inflationary rate, the mathematical result is that the total taxable value for the Township will grow at a rate less than inflation, before considering new property additions.

Business Type Funds will continue to be scrutinized carefully to be certain that rates and/or fees for services are proportionate to the related expenses. The Water Bond Ordinance that has been adopted calls for the increase in water rates. In addition, a Sewer rate increase will be considered in the near future. The Township will be closely considering the decrease in sewer utilization by its metered customers to identify any problems that may exist.

Just after the end of the fiscal year, the Township commenced its water upgrade project. This will be paid for with federal grant and loan proceeds. The project will continue to supply water to Hematite Township and will begin to supply water to the City of Crystal Falls.

TOWNSHIP OF CRYSTAL FALLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2007

Contacting the Township's Management

This financial report is intended to provide the citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Supervisor's office.

TOWNSHIP OF CRYSTAL FALLS
GOVERNMENT WIDE STATEMENT OF NET ASSETS
March 31, 2007

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
CURRENT ASSETS			
Cash and equivalents	\$ 885,178	\$ 16,537	\$ 901,715
Receivables - net	197,964	45,777	243,741
Inventory	1,459	4,586	6,045
Prepaid expenses	<u>25,835</u>	<u>0</u>	<u>25,835</u>
TOTAL CURRENT ASSETS	\$ 1,110,436	\$ 66,900	\$ 1,177,336
RESTRICTED ASSETS - Cash and equivalents	\$ 0	\$ 453	\$ 453
NON-CURRENT ASSETS			
Property and equipment, net of depreciation	\$ 388,341	\$ 1,179,482	\$ 1,567,823
Other	<u>0</u>	<u>8,327</u>	<u>8,327</u>
TOTAL NON-CURRENT ASSETS	\$ <u>388,341</u>	\$ <u>1,187,809</u>	\$ <u>1,576,150</u>
TOTAL ASSETS	\$ 1,498,777	\$ 1,255,162	\$ 2,753,939
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ 12,827	\$ 20,496	\$ 33,323
Accrued and other liabilities	34,591	88,723	123,314
Current part of non-current liabilities	<u>0</u>	<u>9,547</u>	<u>9,547</u>
TOTAL CURRENT LIABILITIES	\$ 47,418	\$ 118,766	\$ 166,184
LIABILITIES PAYABLE FROM RESTRICTED ASSETS	\$ 0	\$ 453	\$ 453
NON-CURRENT LIABILITIES			
Compensated absences	\$ 2,026	\$ 0	\$ 2,026
Revenue bonds payable	<u>0</u>	<u>135,000</u>	<u>135,000</u>
TOTAL NON-CURRENT LIABILITIES	\$ <u>2,026</u>	\$ <u>135,000</u>	\$ <u>137,026</u>
TOTAL LIABILITIES	\$ <u>49,444</u>	\$ <u>254,219</u>	\$ <u>303,663</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 388,341	\$ 1,034,482	\$ 1,422,823
Restricted for			
Prepaid expenses	25,835	0	25,835
Inventory	1,459	4,586	
Bond discount	0	8,327	8,327
Fire protection	175,983	0	175,983
Capital improvements	158,732	0	158,732
Unrestricted	<u>698,983</u>	<u>(46,452)</u>	<u>652,531</u>
TOTAL NET ASSETS	\$ <u>1,449,333</u>	\$ <u>1,000,943</u>	\$ <u>2,450,276</u>

Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF CRYSTAL FALLS
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
Year ended March 31, 2007

FUNCTIONS/PROGRAMS	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>
Governmental Activities				
Legislative	\$ 9,245	\$ 0	\$ 0	\$ 0
General government	240,080	0	0	0
Public safety	130,688	0	0	0
Public works	113,886	34,498	0	0
Parks and recreation	2,905	0	0	0
Community betterment	2,270	0	0	0
Insurance	<u>31,285</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL GOVERNMENTAL ACTIVITIES	\$ <u>530,359</u>	\$ <u>34,498</u>	\$ <u>0</u>	\$ <u>0</u>
Business-Type Activities				
Sewer	\$ 116,222	\$ 98,023	\$ 0	\$ 0
Water	<u>138,006</u>	<u>149,052</u>	<u>0</u>	<u>0</u>
TOTAL BUSINESS-TYPE ACTIVITIES	\$ <u>254,228</u>	\$ <u>247,075</u>	\$ <u>0</u>	\$ <u>0</u>
GENERAL REVENUES				
Property taxes				
State shared revenues and grants				
Licenses and permits				
Unrestricted investments earnings				
Refunds and reimbursements				
Other				
SPECIAL ITEM-Gain (loss) on sale of land				
TRANSFERS				
TOTAL GENERAL REVENUES AND TRANSFERS				
CHANGE IN NET ASSETS				
Net assets - beginning				
NET ASSETS - ENDING				

The Notes to Financial Statements are an integral part of this statement.

NET REVENUE (EXPENSE) AND CHANGES IN NET ASSETS			
PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
\$ (9,245)		\$	(9,245)
(240,080)			(240,080)
(130,688)			(130,688)
(79,388)			(79,388)
(2,905)			(2,905)
(2,270)			(2,270)
<u>(31,285)</u>			<u>(31,285)</u>
\$ (495,861)		\$	(495,861)
	\$ (18,199)	\$	(18,199)
	<u>11,046</u>		<u>11,046</u>
	\$ (7,153)	\$	(7,153)
\$ 510,963	\$ 0	\$	510,963
149,107	0		149,107
1,543	0		1,543
15,885	16,401		32,286
4,489	0		4,489
0	0		0
0	0		0
<u>0</u>	<u>0</u>		<u>0</u>
\$ <u>681,987</u>	\$ <u>16,401</u>	\$	<u>698,388</u>
\$ 186,126	\$ 9,248	\$	195,374
<u>1,263,207</u>	<u>991,695</u>		<u>2,254,902</u>
\$ <u><u>1,449,333</u></u>	\$ <u><u>1,000,943</u></u>	\$	<u><u>2,450,276</u></u>

TOWNSHIP OF CRYSTAL FALLS
GOVERNMENTAL FUNDS BALANCE SHEET
COMBINED BALANCE SHEET
March 31, 2007

	<u>GENERAL</u>	<u>FIRE PROTECTION</u>	<u>TOWNSHIP IMPROVEMENT</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS				
Cash and equivalents	\$ 566,060	\$ 160,386	\$ 158,732	\$ 885,178
Taxes receivable	21,282	10,188	0	31,470
Accounts receivable	200	0	0	200
Due from other funds	95,175	21,409	0	116,584
Due from other governmental units	49,710	0	0	49,710
Inventory	1,459	0	0	1,459
Prepaid expense	<u>5,275</u>	<u>20,560</u>	<u>0</u>	<u>25,835</u>
TOTAL ASSETS	\$ <u>739,161</u>	\$ <u>212,543</u>	\$ <u>158,732</u>	\$ <u>1,110,436</u>
LIABILITIES				
Accounts payable	\$ 12,827	\$ 0	\$ 0	\$ 12,827
Accrued payroll expense	3,023	0	0	3,023
Accrued taxes and withholdings	231	0	0	231
Accrued benefits	0	0	0	0
Due to other funds	15,337	16,000	0	31,337
Accrued interest	0	0	0	0
Other liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL LIABILITIES	\$ 31,418	\$ 16,000	\$ 0	\$ 47,418
FUND BALANCES				
Reserved for				
Prepaid expenses	\$ 5,275	\$ 20,560	\$ 0	\$ 25,835
Unreserved	<u>702,468</u>	<u>175,983</u>	<u>158,732</u>	<u>1,037,183</u>
TOTAL FUND EQUITY	\$ <u>707,743</u>	\$ <u>196,543</u>	\$ <u>158,732</u>	\$ <u>1,063,018</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u>739,161</u>	\$ <u>212,543</u>	\$ <u>158,732</u>	\$ <u>1,110,436</u>

The Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF CRYSTAL FALLS
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
March 31, 2007

Total fund balance - total governmental funds	\$ 1,063,018
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds net of related depreciation	388,341
Accumulated employee benefits not used in current period	<u>(2,026)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>1,449,333</u></u>

The Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF CRYSTAL FALLS
ALL GOVERNMENTAL FUND TYPES
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
Year ended March 31, 2007

	<u>GENERAL</u>	<u>FIRE PROTECTION</u>	<u>TOWNSHIP IMPROVEMENT</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES				
General property taxes	\$ 348,468	\$ 162,495	\$ 0	\$ 510,963
Federal grants	0	0	0	0
State shared revenues and grants	149,107	0	0	149,107
Charges for services	34,498	0	0	34,498
Licenses and permits	1,543	0	0	1,543
Interest and rentals	9,058	1,575	5,252	15,885
Sale of property	0	0	0	0
Refunds and reimbursements	4,489	0	0	4,489
Other	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL REVENUES	\$ 547,163	\$ 164,070	\$ 5,252	\$ 716,485
EXPENDITURES				
Legislative	\$ 9,245	\$ 0	\$ 0	\$ 9,245
General government	228,330	0	0	228,330
Public safety	0	130,688	0	130,688
Public works	112,175	0	0	112,175
Parks and recreation	2,905	0	0	2,905
Community betterment	2,270	0	0	2,270
Insurance	31,285	0	0	31,285
Capital outlay	<u>0</u>	<u>0</u>	<u>2,644</u>	<u>2,644</u>
TOTAL EXPENDITURES	\$ 386,210	\$ 130,688	\$ 2,644	\$ 519,542
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 160,953	\$ 33,382	\$ 2,608	\$ 196,943
OTHER FINANCING SOURCES (USES)				
Transfer from other funds	\$ 0	\$ 0	\$ 2,644	\$ 2,644
Transfer to other funds	<u>(2,644)</u>	<u>0</u>	<u>0</u>	<u>(2,644)</u>
EXCESS OF REVENUES AND OTHER FINANCING USES OVER EXPENDITURES	\$ 158,309	\$ 33,382	\$ 5,252	\$ 196,943
Fund balance - beginning	<u>549,434</u>	<u>163,161</u>	<u>153,480</u>	<u>866,075</u>
FUND BALANCE - ENDING	\$ 707,743	\$ 196,543	\$ 158,732	\$ 1,063,018

Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF CRYSTAL FALLS
RECONCILIATION OF STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
Year ended March 31, 2007

Net change in fund balance - total governmental funds	\$ 196,943
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures; in the Statement of Activities these costs are allocated over their estimated useful life and reported as depreciation	(10,757)
Increases in accumulated employee vacation are recorded when earned in the Statement of Activities	<u>(60)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>186,126</u></u>

The Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF CRYSTAL FALLS
STATEMENT OF NET ASSETS
BUSINESS TYPE FUNDS
March 31, 2007

	<u>SEWER UTILITY</u>	<u>WATER UTILITY</u>	<u>TOTAL</u>
ASSETS			
Current Assets:			
Cash and equivalents	\$ 16,351	\$ 186	\$ 16,537
Accounts receivable	8,658	21,119	29,777
Due from other funds	0	16,000	16,000
Inventory	<u>0</u>	<u>4,586</u>	<u>4,586</u>
TOTAL CURRENT ASSETS	\$ 25,009	\$ 41,891	\$ 66,900
Restricted Assets	\$ 0	\$ 453	\$ 453
Property, Plant and Equipment:			
Utility plant and equipment	\$ 228,199	\$ 1,321,241	\$ 1,549,440
Construction in progress	0	511,695	511,695
Less accumulated depreciation	<u>(72,966)</u>	<u>(808,687)</u>	<u>(881,653)</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 155,233	\$ 1,024,249	\$ 1,179,482
Other Assets - Deferred bond costs	\$ <u>0</u>	\$ <u>8,327</u>	\$ <u>8,327</u>
TOTAL ASSETS	\$ 180,242	\$ 1,074,920	\$ 1,255,162
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 13,060	\$ 7,436	\$ 20,496
Accrued salaries and wages	1,005	2,423	3,428
Payroll withholdings and accrued taxes	77	185	262
Due to other funds	0	80,000	80,000
Customer security deposits	0	200	200
Interest payable	0	4,833	4,833
Current portion of long term debt	<u>0</u>	<u>10,000</u>	<u>10,000</u>
TOTAL CURRENT LIABILITIES	\$ 14,142	\$ 105,077	\$ 119,219
Long Term Liabilities	\$ <u>0</u>	\$ <u>135,000</u>	\$ <u>135,000</u>
TOTAL LIABILITIES	\$ 14,142	\$ 240,077	\$ 254,219
NET ASSETS			
Invested in capital assets - net of related debt	\$ 155,233	\$ 879,249	\$ 1,034,482
Restricted for debt service	0	253	253
Restricted for future construction and improvements	0	0	0
Unrestricted	<u>10,867</u>	<u>(44,659)</u>	<u>(33,792)</u>
TOTAL NET ASSETS	\$ <u>166,100</u>	\$ <u>834,843</u>	\$ <u>1,000,943</u>

Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF CRYSTAL FALLS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
BUSINESS TYPE FUNDS
Year ended March 31, 2007

	<u>SEWER UTILITY</u>	<u>WATER UTILITY</u>	<u>TOTAL</u>
OPERATING REVENUES			
User charges	\$ 98,023	\$ 148,879	\$ 246,902
Other	<u>0</u>	<u>173</u>	<u>173</u>
TOTAL OPERATING REVENUES	\$ 98,023	\$ 149,052	\$ 247,075
OPERATING EXPENSES			
Salaries and wages	\$ 9,879	\$ 33,403	\$ 43,282
Payroll taxes	778	2,629	3,407
Employee benefits	6,405	21,642	28,047
Supplies	2,851	7,358	10,209
Purchased utilities for resale	86,116	0	86,116
Contracted services	1,000	8,107	9,107
Utilities	3,582	21,639	25,221
Dues and subscriptions	0	62	62
Travel	0	448	448
Printing and publishing	129	129	258
Depreciation	5,345	34,120	39,465
Other	<u>137</u>	<u>0</u>	<u>137</u>
TOTAL OPERATING EXPENSES	\$ <u>116,222</u>	\$ <u>129,537</u>	\$ <u>245,759</u>
OPERATING INCOME (LOSS)	\$ (18,199)	\$ 19,515	\$ 1,316
NON-OPERATING INCOME (EXPENSE)			
Interest	\$ 0	\$ 8,401	\$ 8,401
Rental	0	8,000	8,000
Interest	<u>0</u>	<u>(8,469)</u>	<u>(8,469)</u>
NET INCOME (LOSS)	\$ (18,199)	\$ 27,447	\$ 9,248
Net assets - beginning	<u>184,299</u>	<u>807,396</u>	<u>991,695</u>
NET ASSETS - ENDING	\$ <u><u>166,100</u></u>	\$ <u><u>834,843</u></u>	\$ <u><u>1,000,943</u></u>

Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF CRYSTAL FALLS
STATEMENT OF CASH FLOWS
BUSINESS TYPE FUNDS
Year ended March 31, 2007

	<u>SEWER UTILITY</u>	<u>WATER UTILITY</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 99,280	\$ 120,601	\$ 219,881
Payments to suppliers	(87,571)	(60,488)	(148,059)
Payments to or on behalf of employees	<u>(17,739)</u>	<u>(57,990)</u>	<u>(75,729)</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ (6,030)	\$ 2,123	\$ (3,907)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Loan from (to) other funds	0	80,000	80,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal paid on capital debt	\$ 0	\$ (5,000)	\$ (5,000)
Interest paid on revenue bonds	0	(8,336)	(8,336)
Purchases of capital assets	0	0	0
Construction in progress	0	(255,324)	(255,324)
Funding of restricted accounts	<u>0</u>	<u>5,428</u>	<u>5,428</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ 0	\$ (263,232)	\$ (263,232)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned	\$ <u>0</u>	\$ <u>8,401</u>	\$ <u>8,401</u>
NET INCREASE (DECREASE) IN CASH	\$ (6,030)	\$ (172,708)	\$ (178,738)
Cash and equivalents - beginning	<u>22,381</u>	<u>172,894</u>	<u>195,275</u>
CASH AND EQUIVALENTS - ENDING	\$ <u>16,351</u>	\$ <u>186</u>	\$ <u>16,537</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (18,199)	\$ 19,515	\$ 1,316
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities			
Depreciation	5,345	34,120	39,465
Change in Assets and Liabilities			
Receivables - net	1,257	(13,138)	(11,881)
Inventory	0	781	781
Accounts payable	6,244	(23,526)	(17,282)
Accrued salaries and wages	(630)	(293)	(923)
Payroll withholding and accrued taxes	(47)	(23)	(70)
Deferred revenue	<u>0</u>	<u>(15,313)</u>	<u>(15,313)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>(6,030)</u>	\$ <u>2,123</u>	\$ <u>(3,907)</u>

Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF CRYSTAL FALLS
STATEMENT OF NET ASSETS
FIDUCIARY FUND
March 31, 2007

ASSETS

Cash and equivalents	\$ 86,296
Due from other governmental units	<u>0</u>
TOTAL ASSETS	\$ <u>86,296</u>

LIABILITIES AND FUND EQUITY

Liabilities	
Due to other funds	\$ 21,247
Due to other governmental units	<u>65,049</u>
TOTAL LIABILITIES	\$ <u>86,296</u>

Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF CRYSTAL FALLS
FIDUCIARY FUNDS - AGENCY
STATEMENT OF CHANGES IN NET ASSETS
Year ended March 31, 2007

	BALANCE 31-Mar-06	ADDITIONS	DEDUCTIONS	BALANCE 31-Mar-07
ASSETS				
Cash and equivalents	\$ 3,042	\$ 1,232,606	\$ 1,149,352	\$ 86,296
Due from other governmental units	<u>107</u>	<u>0</u>	<u>107</u>	<u>0</u>
TOTAL ASSETS	\$ <u>3,149</u>	\$ <u>1,232,606</u>	\$ <u>1,149,459</u>	\$ <u>86,296</u>
LIABILITIES				
Due to other funds	\$ 2,808	\$ 482,165	\$ 463,726	\$ 21,247
Due to other governmental units	341	749,834	685,126	65,049
Due to taxpayers	<u>0</u>	<u>607</u>	<u>607</u>	<u>0</u>
TOTAL LIABILITIES	\$ <u>3,149</u>	\$ <u>1,232,606</u>	\$ <u>1,149,459</u>	\$ <u>86,296</u>

Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township of Crystal Falls (Township) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township:

Reporting Entity

The Township is governed by an elected five member board of trustees (Board). The accompanying financial statements present the government, as the Township does not have any component units that are required to be presented, either discretely or blended.

JOINTLY GOVERNED ORGANIZATIONS

Crystal Falls Fire Authority

The Township of Crystal Falls and City of Crystal Falls participate jointly in the operation of the Crystal Falls Fire Authority. All of the financial operations of the Authority are recorded in a separate set of financial records and are available at the Fire Department Offices located in the Crystal Falls City Hall.

The funding formula approved by the members of the Local Units is based pro rata on each unit's population. The Township's contribution to the Fire Authority for the audit period was \$121,855.

Government-Wide and Fund Financial Statements

The government-wide statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual

TOWNSHIP OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable—Current Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes levied on December 1 are payable in one installment by the 15th day of February of the ensuing year without penalty. The Township bills and collects its own property taxes and also taxes for Iron County and the Crystal Falls Community District Library. Collections and remittances of county and library taxes are accounted for in the Tax Collection Fund. Township real property taxes are recognized when levied and personal property taxes are recognized when received.

The Township actually assessed 4.1466 mills for operations and 1.9856 mills for fire protection. The millage generated net tax collections of \$333,547 that is recorded in the General Fund and \$159,713 in the Fire Protection Fund.

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

TOWNSHIP OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The Fire Protection Fund accounts for the tax collections restricted for fire protection and pays primarily the quarterly commitments to the Crystal Falls Fire Authority.

The Township Improvement Fund accounts for transfers primarily from the General Fund and expends funds for designated non-utility capital projects.

The Township reports the following major proprietary funds:

The Water Fund accounts for the activities of the water distribution system.

The Sewer Fund accounts for the activities of the sewer collection system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's utility function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Township's proprietary funds relate to charges to customers for sales and services. The utility funds also recognizes the portion of the fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, depreciation on capital assets and debt costs associated with financing upgrades to the utility systems. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

TOWNSHIP OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments– Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of six months or less when acquired. Investments are stated at fair value.

Receivables and Payables– In general, outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “due to/from other funds.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on February 16th of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items– Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets– The revenue bonds of the enterprise funds require amounts to be set aside for debt service principal and interest and a bond reserve. These amounts have been classified as restricted assets. In addition, the deposits placed on account by utility customers are also classified as restricted.

Capital Assets– Capital assets, which include property, plant and equipment are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The Township has elected not to report its infrastructure assets which is in compliance with Governmental Accounting Standards Board Statement Number 34 as the Township is a “tier three” entity. All future infrastructure asset additions will be recorded and reported in the government wide financial statements.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

TOWNSHIP OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Assets or Equity (Continued)

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	40 to 60 years
Other Infrastructure	10 to 40 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Compensated Absences (Vacation, Personal and Sick Leave)– It is the Township’s policy to permit employees to accumulate earned but unused compensatory benefits. The Township does not have a determinable liability for unpaid accumulated sick leave since the Township has a policy not to pay any portion of the accumulated benefits to employees upon separation from service. All compensatory leave pay is accrued when incurred in the proprietary fund financial statements. A liability for this amount is reported in governmental funds only for employee terminations as of year-end as the use of current financial resources to satisfy the debt has not been determined.

Long-Term Obligations– In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as Other Financing Sources. Premiums received on debt issuances are reported as Other Financing Sources while discounts are reported as Other Financing Uses. Issuance costs are reported as debt service expenditures.

Fund Equity– In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year’s presentation.

TOWNSHIP OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE B - CASH AND INVESTMENTS

MCL 129.91 authorizes the Township to deposit and invest in the accounts of Federal insured banks, credit unions, savings and loan associations; bond securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township has designated three banks and one investment organization for the deposit of Township funds. The investments policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized only a portion of the investments described in the preceding paragraph. The Township's deposits and investment policy are in accordance with statutory authority.

At year end, the Township's deposits and investments were reported on the basic financial statements in the following categories:

Bank deposits (demand and time deposits)	\$ 766,180
Investment house deposits	<u>222,133</u>
 TOTAL (includes trust and agency funds)	 \$ 988,313 <u>=====</u>

The federal insured bank balance of the Township's deposits is \$ 354,763. There were no items classified as investments during the fiscal year.

NOTE C - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit of government shall not incur expenditures in excess of the amounts appropriated in any of its budgetary funds.

Included in the "Required Supplemental Information" section of this report is a listing of revenues and expenditures for the budgetary funds. The schedules reflect the original budget, amended budget and actual amounts for each of the fund's activities. Some unfavorable variances occurred during the year primarily due to year accruals and reclassifications.

NOTE D - ACCUMULATED DEFICITS

The Township has an accumulated fund balance/retained earnings deficits in its Sewer Fund. To be in compliance with Public Act 275 of 1980, as amended, the Township must formulate and file a deficit elimination plan.

TOWNSHIP OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE E - INTERFUND TRANSFERS

The following interfund transfer was recorded during the year and is reflected in the financial statements.

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>
General	Township Improvement	\$ 2,644

NOTE F - INTERFUND RECEIVABLES AND PAYABLE

The March 31, 2007, balances of interfund receivables and payables are as follows:

<u>Due From</u>	<u>Due to</u>	<u>Amount</u>
General	Fire Protection	\$ 15,337
Tax Collection	General	15,175
Tax Collection	Fire Protection	6,072
Water Utility	General	80,000
Fire Protection	Water Utility	16,000

NOTE G - TOWNSHIP IMPROVEMENT FUND

Pursuant to a resolution of the Township Board, this fund was established to accumulate financial resources to be used for Township capital improvement and capital outlay type expenses.

The fund was initiated with a transfer from the General Fund. As mandated by law, such transfers are limited to two mills per year/five mills in total of the state equalized valuation of the real and personal property in the Township . Further, all interest earned on investments of the fund becomes part of the fund.

If deemed necessary for the operations of the Township, the Board at its discretion may transfer monies back to the General Fund.

TOWNSHIP OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE H - CHANGES IN CAPITAL ASSETS

Capital asset activity for the Township for the year ended March 31, 2007 was as follows:

	Beginning	Additions	Disposals	Ending
Governmental Funds				
Assets not depreciated - Land	\$ 55,994	\$ 0	\$ 0	\$ 55,994
Assets depreciated				
Buildings	613,923	0	0	613,923
Equipment	<u>50,300</u>	<u>2,644</u>	<u>0</u>	<u>52,944</u>
Total at Historic Cost	\$ 720,217	\$ 2,644	\$ 0	\$ 722,861
Less Accumulated Depreciation for:				
Buildings	\$ 287,738	\$ 8,787	\$ 0	\$ 296,525
Equipment	<u>33,381</u>	<u>4,614</u>	<u>0</u>	<u>37,995</u>
Total Accumulated Depreciation	\$ 321,119	\$ 13,401	\$ 0	\$ 334,520
Net Governmental Funds - Capital Assets	<u>\$ 399,098</u>			<u>\$ 388,341</u>
 Business Type Funds				
Assets not depreciated - Construction	\$ 256,370	\$ 255,325	\$ 0	\$ 511,695
Assets depreciated				
Sewer utility system	228,199	0	0	228,199
Water utility system	<u>1,321,241</u>	<u>0</u>	<u>0</u>	<u>1,321,241</u>
Total at Historic Cost	\$1,805,810	\$ 255,325	\$ 0	\$ 2,061,135
Less Accumulated Depreciation for:				
Sewer utility system	\$ 67,621	\$ 5,345	\$ 0	\$ 72,966
Water utility system	<u>774,567</u>	<u>34,120</u>	<u>0</u>	<u>808,687</u>
Total Accumulated Depreciation	\$ 842,188	\$ 39,465	\$ 0	\$ 881,653
Net Business Type Funds - Capital Assets	<u>\$ 963,622</u>			<u>\$ 1,179,482</u>

NOTE I - DEFERRED COMPENSATION PLAN

The Township has established a deferred compensation plan under Internal Revenue Code Section 457. The plan, available to all regular Township employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency.

The Township does not have significant administrative involvement for the assets of the deferred compensation plan and each employee is electing investments for themselves.

TOWNSHIP OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE I - DEFERRED COMPENSATION PLAN (CONTINUED)

The Township accounts for and reports its deferred compensation plan under provisions of both GASB Statements No. 32 "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans" and GASB Statement No. 34, "Basis Financial Statements and Management's Discussion and Analysis for State and Local Governments."

GASB Statement No. 32 rescinded GASB Statement No. 2 and established accounting and financial reporting standards for Internal Revenue Code Section 457 deferred compensation plans of state and local governmental employers. The laws governing these plans were changed to state that as of August 20, 1996, new plans would not be considered eligible unless all assets and income of the plan are held in trust or covered by annuity contract for the exclusive benefits of the participants and their beneficiaries. The Township's plan meets this requirement.

GASB Statement No. 34 amended GASB Statement No. 32 Paragraph 4, and the Township's deferred compensation plan assets and liabilities are not reported in the Township's financial statements.

The Township's contribution was \$ 573 during the year.

NOTE J - CHANGES IN LONG TERM DEBT - WATER SUPPLY SYSTEM REVENUE AND REVENUE REFUNDING BONDS - SERIES 1987

Long term debt of the Water Fund at March 31, 2007 is comprised of the following amount:

\$ 220,000 -Water Supply System Revenue and Revenue Refunding Bonds - Series 1987 due in annual installments as set forth in the Schedule of Bonded Debt and Interest on each May and November 1, through 2017.

In July of 1993, the Township refinanced its then outstanding Water Supply System Revenue Bonds - Series 1987 by entering into a "Savings Agreement" with the Michigan Municipal Bond Authority pursuant to the Authorities Local Government Refunding Revenue Bond Program. Through a reduction in the coupon interest rates, the refinancing effectively saved the Township \$49,925 in bond interest. Refinancing charges totaling \$ 15,318 were deferred and are being amortized on a straight line basis over the remaining life of the bonds.

Below is an amortization schedule for the Revenue Bond:

<u>Date</u>	<u>Payment Due</u>	<u>Principal</u>	<u>Interest</u>
May 1, 2007	\$ 5,800	\$ 0	\$ 5,800
November 1, 2007	12,138	10,000	2,138
May 1, 2008	5,400	0	5,400
November 1, 2008	11,988	10,000	1,988
May 1, 2009	5,000	0	5,000

TOWNSHIP OF CRYSTAL FALLS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE J - CHANGES IN LONG TERM DEBT - WATER SUPPLY SYSTEM REVENUE AND REVENUE
REFUNDING BONDS - SERIES 1987 (CONTINUED)

<u>Date</u>	<u>Payment Due</u>	<u>Principal</u>	<u>Interest</u>		
November 1, 2009	11,823	10,000	1,823		
May 1, 2010	4,600	0	4,600		
November 1, 2010	11,658	10,000	1,658		
May 1, 2011	4,200	0	4,200		
November 1, 2011	11,493	10,000	1,492		
2012 - 2017	<u>113,095</u>	<u>95,000</u>	<u>18,095</u>		
	<u>\$ 197,193</u>	<u>\$ 145,000</u>	<u>\$ 52,193</u>		
	Beginning	Newly	Ending	Due within	
	Balance	Issued	Retired	Balance	One Year
Water Supply Revenue Bond	<u>\$ 150,000</u>	<u>\$ 0</u>	<u>\$ 5,000</u>	<u>\$145,000</u>	<u>\$ 10,000</u>

NOTE K - COMMITMENTS

The Township commenced a Water Utility System upgrade after the end of the fiscal year. The total cost of the project is anticipated to be \$7.2 million. The project will be paid for with an Environmental Protection Agency grant and a US Department of Agriculture (Rural Development) grant/loan. When complete the system will provide potable water to the City of Crystal Falls, Hematite Township and the citizens of Crystal Falls Township.

NOTE K - RISK MANAGEMENT

The Township of Crystal Falls is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township of Crystal Falls maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Township. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

REQUIRED
SUPPLEMENTAL
INFORMATION

TOWNSHIP OF CRYSTAL FALLS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year ended March 31, 2007

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>AMENDED</u> <u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u> <u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 549,434	\$ 549,434	\$ 549,434	\$ 0
Resources (Inflows)				
Property taxes	356,863	356,863	348,468	(8,395)
Federal grants	10,500	50	0	(50)
State shared revenues and grants	141,800	148,850	149,107	257
Licenses and permits	1,620	1,350	1,543	193
Charges for services	35,000	35,000	34,498	(502)
Interest and rentals	6,600	5,600	9,058	3,458
Sale of property	25,000	25,000	0	(25,000)
Refunds and reimbursements	5,000	4,350	4,489	139
Other	<u>200</u>	<u>200</u>	<u>0</u>	<u>(200)</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ <u>1,132,017</u>	\$ <u>1,126,697</u>	\$ <u>1,096,597</u>	\$ <u>(30,100)</u>
Charges to Appropriations (Outflows)				
Legislative				
Trustees	\$ 9,200	\$ 32,300	\$ 9,245	\$ 23,055
General Government				
Supervisor	15,000	17,100	22,210	(5,110)
Elections	5,300	3,300	3,397	(97)
Clerk	30,800	44,300	34,062	10,238
Assessor	20,500	21,400	21,882	(482)
Audit/attorney	45,000	31,000	31,341	(341)
Board of review	550	300	679	(379)
Treasurer	19,000	21,800	28,092	(6,292)
Buildings and property	40,920	53,700	56,393	(2,693)
Cemetery	11,430	11,430	11,430	0
Zoning	24,100	17,800	18,844	(1,044)
Public Works				
Maintenance	245,400	65,400	42,233	23,167
Sanitation	55,500	62,200	69,942	(7,742)
Parks and Recreation				
Gibson Lake park	0	1,600	1,733	(133)
Other	2,500	700	1,172	(472)
Community betterment	4,000	4,000	2,270	1,730
Employee benefits	88,400	16,000	0	16,000
Insurance	36,170	36,800	31,285	5,515
Capital outlay	40,000	40,000	0	40,000
Transfers to other funds	<u>8,000</u>	<u>8,000</u>	<u>2,644</u>	<u>5,356</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>701,770</u>	\$ <u>489,130</u>	\$ <u>388,854</u>	\$ <u>100,276</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>430,247</u></u>	\$ <u><u>637,567</u></u>	\$ <u><u>707,743</u></u>	\$ <u><u>70,176</u></u>

TOWNSHIP OF CRYSTAL FALLS
BUDGETARY COMPARISON SCHEDULE
FIRE PROTECTION FUND
Year ended March 31, 2007

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 163,161	\$ 163,161	\$ 163,161	\$ 0
Resources (Inflows)				
Property taxes	158,266	158,266	162,495	4,229
Interest earned	0	0	1,575	1,575
Transfers from other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 321,427	\$ 321,427	\$ 327,231	\$ 5,804
Charges to Appropriations (Outflows)				
Public safety - fire	\$ 124,000	\$ 124,000	\$ 121,940	\$ 2,060
Administration	0	0	748	(748)
Hydrant rental	0	0	8,000	(8,000)
Capital outlay	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>124,000</u>	\$ <u>124,000</u>	\$ <u>130,688</u>	\$ <u>(6,688)</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>197,427</u></u>	\$ <u><u>197,427</u></u>	\$ <u><u>196,543</u></u>	\$ <u><u>(884)</u></u>

TOWNSHIP OF CRYSTAL FALLS
BUDGETARY COMPARISON SCHEDULE
TOWNSHIP IMPROVEMENT FUND
Year ended March 31, 2007

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 153,480	\$ 153,480	\$ 153,480	\$ 0
Resources (Inflows)				
Interest	3,200	4,700	5,252	552
Transfer from other funds	<u>0</u>	<u>0</u>	<u>2,644</u>	<u>2,644</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 156,680	\$ 158,180	\$ 161,376	\$ 3,196
Charges to Appropriations (Outflows)				
Capital outlay	\$ 10,500	\$ 1,600	\$ 2,644	\$ (1,044)
Transfer to other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>10,500</u>	\$ <u>1,600</u>	\$ <u>2,644</u>	\$ <u>(1,044)</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>146,180</u></u>	\$ <u><u>156,580</u></u>	\$ <u><u>158,732</u></u>	\$ <u><u>2,152</u></u>

ADDITIONAL
INFORMATION

TOWNSHIP OF CRYSTAL FALLS
BALANCE SHEET
WATER SUPPLY SYSTEM FUND
March 31, 2007 and 2006

ASSETS	2007	2006
Current Assets:		
Cash	\$ 186	\$ 172,894
Accounts receivable	21,119	7,981
Due from other funds	16,000	8,000
Inventory	<u>4,586</u>	<u>5,367</u>
TOTAL CURRENT ASSETS	\$ 41,891	\$ 194,242
Restricted Assets:		
Bond interest and redemption	\$ 253	\$ 5,681
Customer security deposits	<u>200</u>	<u>0</u>
TOTAL RESTRICTED ASSETS	\$ 453	\$ 5,681
Property and Equipment:		
Property and equipment	\$ 1,321,241	\$ 1,321,241
Construction in progress	511,695	256,370
Less accumulated depreciation	<u>(808,687)</u>	<u>(774,567)</u>
NET PROPERTY AND EQUIPMENT	\$ 1,024,249	\$ 803,044
Other Assets - Deferred bond costs - net	<u>\$ 8,327</u>	<u>\$ 8,627</u>
TOTAL ASSETS	<u>\$ 1,074,920</u>	<u>\$ 1,011,594</u>
LIABILITIES AND FUND EQUITY		
Current Liabilities:		
Account payable	\$ 7,436	\$ 30,962
Accrued salaries and wages	2,423	2,716
Payroll withholdings and accrued taxes	185	208
Due to other funds	80,000	0
Customer security deposits	200	0
Accrued interest	4,833	5,000
Deferred revenue	0	15,313
Current portion of long-term debt	<u>10,000</u>	<u>5,000</u>
TOTAL CURRENT LIABILITIES	\$ 105,077	\$ 59,199
Long-Term Debt:		
Revenue bonds	\$ 145,000	\$ 150,000
Less current portion included above	<u>(10,000)</u>	<u>(5,000)</u>
TOTAL LONG-TERM DEBT	\$ 135,000	\$ 145,000
TOTAL LIABILITIES	\$ 240,077	\$ 204,199
FUND EQUITY		
Contributed Capital:		
Federal (net of amortization)	\$ 27,220	\$ 33,313
Township	<u>593,843</u>	<u>593,843</u>
TOTAL CONTRIBUTED CAPITAL	\$ 621,063	\$ 627,156
Retained earnings:		
Reserved	\$ 12,913	\$ 13,993
Unreserved - undesignated	<u>200,867</u>	<u>166,246</u>
TOTAL RETAINED EARNINGS	\$ 213,780	\$ 180,239
TOTAL FUND EQUITY	<u>\$ 834,843</u>	<u>\$ 807,395</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 1,074,920</u>	<u>\$ 1,011,594</u>

TOWNSHIP OF CRYSTAL FALLS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
WATER SUPPLY SYSTEM FUND
Years ended March 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Charges for services:			
Customer sales	\$ 148,879	\$ 142,319	\$ 6,560
Water taps and other services	<u>173</u>	<u>323</u>	<u>(150)</u>
TOTAL OPERATING REVENUES	\$ 149,052	\$ 142,642	\$ 6,410
OPERATING EXPENSES			
Wages	\$ 33,403	\$ 40,641	\$ 7,238
Payroll taxes	2,629	3,067	438
Employee benefits	21,642	22,403	761
Supplies	7,358	8,371	1,013
Purchased services	8,107	5,182	(2,925)
Dues and subscriptions	62	25	(37)
Travel	448	186	(262)
Printing and publishing	129	158	29
Utilities	21,639	23,284	1,645
Depreciation	<u>34,120</u>	<u>34,609</u>	<u>489</u>
TOTAL OPERATING EXPENSES	\$ 129,537	\$ 137,926	\$ 8,389
OPERATING INCOME	\$ 19,515	\$ 4,716	\$ 14,799
NON-OPERATING REVENUE (EXPENSE)			
Interest income	\$ 8,401	\$ 896	\$ 7,505
Rental income	8,000	8,000	0
Interest expense	<u>(8,469)</u>	<u>(8,729)</u>	<u>260</u>
TOTAL NON-OPERATING REVENUE (EXPENSE)	\$ 7,932	\$ 167	\$ 7,765
NET INCOME	\$ 27,447	\$ 4,883	\$ <u>22,564</u>
Add depreciation of fixed assets acquired by capital grants that reduces contributed capital from grants	6,094	6,094	
Retained Earnings - April 1	<u>180,239</u>	<u>169,262</u>	
RETAINED EARNINGS - MARCH 31	\$ <u>213,780</u>	\$ <u>180,239</u>	

TOWNSHIP OF CRYSTAL FALLS
STATEMENT OF CASH FLOWS
WATER SUPPLY SYSTEM FUND
Year ended March 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 120,601	\$ 143,639
Payments to suppliers	(60,488)	(10,571)
Payments to or on behalf of employees	<u>(57,990)</u>	<u>(63,187)</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 2,123	\$ 69,881
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES - Loan from other funds	80,000	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on capital debt	\$ (5,000)	\$ (5,000)
Interest paid on revenue bonds	(8,336)	(8,597)
Purchases of capital assets	0	0
Construction in progress	(255,324)	(256,371)
Funding of restricted accounts	<u>5,428</u>	<u>3,540</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (263,232)	\$ (266,428)
CASH FLOWS FROM INVESTING ACTIVITIES - Interest	\$ <u>8,401</u>	\$ <u>896</u>
NET INCREASE (DECREASE) IN CASH	\$ (172,708)	\$ (195,651)
Cash and equivalents - beginning	<u>172,894</u>	<u>368,545</u>
CASH AND EQUIVALENTS - ENDING	\$ <u><u>186</u></u>	\$ <u><u>172,894</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 19,515	\$ 4,716
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	34,120	34,609
Change in Assets and Liabilities		
Receivables - net	(13,138)	1,081
Inventory	781	(2,595)
Accounts payable	(23,526)	29,230
Accrued salaries and wages	(293)	2,716
Payroll withholdings and accrued taxes	(23)	208
Deferred revenue	<u>(15,313)</u>	<u>(84)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u><u>2,123</u></u>	\$ <u><u>69,881</u></u>

CRYSTAL FALLS TOWNSHIP
INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/MEMBERS OF THE TOWNSHIP BOARD
AND
MANAGEMENT ADVISORY COMMENTS

MARCH 31, 2007

CRYSTAL FALLS TOWNSHIP
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MARCH 31, 2007

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**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
MEMBERS OF THE TOWNSHIP BOARD**

To Members of the Township Board
Crystal Falls Township

I have audited the financial statements of the Crystal Falls Township ("Township") as of and for the year ended March 31, 2007, and have issued my report, thereon, dated September 11, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing my audit of the financial statements, I considered your internal control in order to determine my auditing procedures for purposes of expressing my opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and my responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Township's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustment, in my judgment, indicate matters that could have a significant effect on the Township's financial reporting process (see page 6 showing the audit adjusting journal entry, if there were any necessary).

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - Management has consulted with other another accountant regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There were no discussions regarding the application of accounting principles or auditing standards with management prior to my retention as your auditor.

Difficulties Encountered in Performing the Audit - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, I would welcome the opportunity to discuss them with you.

Sam E. Lusk, M.P.C.

September 11, 2007

**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To Members of the Township Board
Crystal Falls Township

I have audited the financial statements of the Crystal Falls Township ("Township") as of and for the year ended March 31, 2007, and have issued my report, thereon, dated September 11, 2007.

Other matters involving the Township's operations and internal control, which came to my attention during the audit, are reported on the following pages as management advisory comments.

I would like to take this opportunity to acknowledge the many courtesies extended to me by the Township's personnel during the course of my work.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, I would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, P.C.

September 11, 2007

CRYSTAL FALLS TOWNSHIP
MANAGEMENT ADVISORY COMMENTS
March 31, 2007
=====

Invoice Approval

The Township Board approves all invoices before payment with some exceptions, but there is not a **formal policy** explaining what exceptions are acceptable.

The Michigan Department of Treasury requires that the Board approve all invoices prior to payment unless addressed otherwise in a formal policy. The legislative body may establish a formal policy to authorize payments prior to approval to avoid finance or late charges and to pay appropriated amounts and payroll (including related payroll taxes and withholdings). This policy must be very limited and a list of payments made prior to approval must be presented to the legislative body for approval.

I recommend the Township Board approve a formal policy on invoice approval that describes acceptable exceptions.

Gas Vendor Card

The Township department of public works, purchases gasoline for its vehicles at a local gas station. The internal controls appear to be adequate for these type of purchases, but there is not a written procedure explaining the process.

I recommend the Township Board adopt a vendor credit policy so that the procedure is in writing. It should be noted, that the Michigan Department of Treasury does require a credit card policy, but it is not clear to me whether a vendor credit card policy is required. Even though it may not be required by the State, it seems to me that a written policy approved by the Board would be a good idea.

CRYSTAL FALLS TOWNSHIP
MANAGEMENT ADVISORY COMMENTS

March 31, 2007
(Continued)

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Form 1099's

The Township has not been issuing W-2's for certain appointed individuals performing services for the Township. For example, planning commission and zoning board members receive a form 1099 for their services. My understanding is that these type of services are subject to social security and medicare tax coverage. Prior to March 31, 1986, Township's participation in the "Social Security System" was voluntary if the Township had a "218 Agreement". Federal law made Medicare Tax coverage mandatory for all employees hired after March 31, 1986.

The Budget Reconciliation Act of 1990 required Social Security and Medicare coverage of all township employees, with a limited number of exceptions. Exception #1, was that employees covered by pension plans may be excluded from the social security portion if they are covered by a "pension plan". Exception #2, payments to "election workers" not exceeding \$1,100 per calendar year are exempt from Social Security and Medicare taxes. Also, to qualify for the "pension" exception there are some specified rules.

My recommendation would be to include appointed individuals as employees except for election workers that are paid below \$1,100 per calendar year.

CRYSTAL FALLS TOWNSHIP
ADJUSTING JOURNAL ENTRIES
March 31, 2007
=====

<u>Account Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
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It was not necessary to make any adjusting journal entries.